

## Message Text

SECRET

PAGE 01 KUWAIT 00210 01 OF 02 121226Z  
ACTION SS-25

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P R 120955Z JAN 77  
FM AMEMBASSY KUWAIT  
TO SECSTATE WASHDC PRIORITY 7035  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY DOHA  
AMEMBASSY JAKARTA  
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AMEMBASSY LONDON  
AMEMBASSY TEHRAN  
AMEMBASSY TOKYO  
USINT BAGHDAD  
USOECN PARIS  
USMISSION EC BRUSSELS  
AMCONSUL DHAHRAN

S E C R E T SECTION 1 OF 2 KUWAIT 0210

EXDIS

FOR THE SECRETARY AND ASST. SEC. ATHERTON

E.O. 11652: GDS  
TAGS: ENRG, SA, TC  
SUBJECT: SUGGESTED CONSIDERATION OF POLICY OPTIONS AND  
ACTIONS TO SUPPORT SAUDI ARABIA/UAH IN OPEC PRICE INCREASE  
DISPUTE

1. SUMMARY: THE UNCERTAINTY AND CONFUSION RESULTING FROM  
THE TWO-TIER OIL PRICING SYSTEM WHICH EMERGED FROM THE DOHA  
OPEC MEETING ARE BEING COMPOUNDED BY THE PROSPECT OF REDUCED  
LIFTINGS BY SOME OIL COMPANIES FROM OPEC ELEVEN COUNTRIES.  
DESPITE THE GREAT WEALTH OF MANY OF THE ELEVEN, THEIR  
INDUSTRIAL AND DEVELOPMENT COMMITMENTS CONTINUE TO REQUIRE

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A HIGH LEVEL OF FINANCING SUPPLIED BY OIL SALES. THE DOHA  
MEETING PRODUCED A CRACK IN THE FACADE OF OPEC SOLIDARITY  
WHICH IS POSSIBLY WORTHWHILE EXPLOITING NOW IN ORDER TO  
COUNTERACT THE IRRESPONSIBLE TREND DISPLAYED IN OPEC  
ACTIONS. THE USG SHOULD STUDY CAREFULLY AND CONSIDER  
SERIOUSLY WHAT POLICY OPTIONS ARE OPEN TO SUPPORT SAUDI  
ARABIA'S EFFORT TO HOLD THE OIL PRICE INCREASE TO FIVE

PERCENT AND TO PERSUADE THE OPEC ELEVEN TO SETTLE FOR THE SAME INCREASE LEVEL BY A VARIETY OF ACTIONS, INCLUDING REDUCED LIFTINGS, INCREASED NON-OPEC PRODUCTION, DRAWDOWN OF STOCKS AND RESERVES, AND CONSERVATION MEASURES, AS WELL AS RENEWED DIPLOMATIC "JAWBONING." FAILURE OF THIS SAUDI/UAЕ BOLD ACTION DUE TO LACK OF SUPPORT FROM CONSUMING NATIONS COULD LEAD TO EVENTUAL ECONOMIC CONFRONTATION AS WELL AS DAMAGE THE POLITICAL POSITION OF THE WEST IN THE MIDDLE EAST. END SUMMARY.

2. I HAVE REVIEWED THE SPATE OF MESSAGES (INCLUDING THOSE FROM KUWAIT) ON POST-DOHA OPEC MEETING DEVELOPMENTS AND AM PROMPTED TO OFFER THE FOLLOWING OBSERVATIONS AND SUGGESTIONS. ALTHOUGH MOST MESSAGES HAVE STRESSED FIRM INTENTION OF OPEC ELEVEN TO HOLD FIRMLY TO THEIR AGREED OIL PRICE INCREASE (AT LEAST THE INITIAL TEN PERCENT), WITH THE EXPECTATION THAT SAUDI ARABIA (AND THE UNITED ARAB EMIRATES) WOULD EVENTUALLY FALL INTO LINE, A CURRENT OF UNCERTAINTY AND CONFUSION ABOUT THE IMPACT OF THE TWO-TIER PRICE SYSTEM HAS BEEN REGISTERED THROUGHOUT. ANOTHER FACTOR WHICH EMERGES IS THE APPARENTLY SERIOUS DETERMINATION OF SAUDI ARABIA TO MAINTAIN THE LOWER FIVE PERCENT PRICE INCREASE BY RAISING ITS OIL PRODUCTION LEVEL.

3. REDUCED LIFTINGS: MORE RECENT DEVELOPMENTS HAVE INDICATED THAT VARIOUS OIL COMPANIES, BOTH SMALL AND LARGE, HAVE INDICATED TO A NUMBER OF PRODUCERS AMONG THE OPEC ELEVEN THAT THEY WOULD BE REDUCING OR--IN THE CASE OF A FEW SMALLER BUYERS--SUSPENDING THEIR NORMAL LIFTINGS IN THE FIRST

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QUARTER OF 1977. HERE IN KUWAIT, TWO OF THE THREE MAJOR PURCHASERS, GULF AND SHELL, HAVE REDUCED LIFTINGS; BP APPARENTLY WILL FOLLOW SUIT SHORTLY. OIL MINISTER AL-KAZEMI HAS ALREADY ANNOUNCED PUBLICLY THAT KUWAIT'S CRUDE PRODUCTION WOULD BE LOWERED BECAUSE OF SUCH REDUCED LIFTINGS. IRAN, TOO, HAS REPORTED A ONE-THIRD REDUCTION IN NORMAL LIFTINGS AND HAS THREATENED PUBLICLY TO "BLACKLIST" THOSE OIL COMPANIES INVOLVED. A WIRE SERVICE REPORT INDICATED THAT EXXON WAS PLANNING TO SUPPLY SOME SAUDI ARABIAN CRUDE TO ITS ARUBA REFINERY, HERETOFORE REPORTEDLY RUN ON VENEZUELAN CRUDE.

4. PRODUCTION REQUIREMENTS. WHILE ONE MIGHT ASSUME THAT KUWAIT, WITH ITS SURPLUS WEALTH, COULD MANAGE QUITE WELL ON A LOWER OUTPUT, THIS IS NOT NECESSARILY SO. KUWAIT IS DEPENDENT UPON ASSOCIATED GAS FOR THE GENERATION OF POWER, THE DEMAND FOR WHICH IS INCREASING RAPIDLY AND REACHES ITS HIGH POINT DURING SUMMER. MOREOVER, KUWAIT IS CONSTRUCTING A BILLION DOLLAR GAS UTILIZATION PLANT FOR PRODUCTION OF LPG WHICH WILL REQUIRE BY 1978 AT LEAST A TWO MILLION B/D

CRUDE PRODUCTION IF IT IS TO OBTAIN THE NECESSARY ASSOCIATED GAS TO COMMENCE PARTIAL OPERATION. I AM NOT FULLY FAMILIAR WITH THE SITUATION IN THE OTHER OPEC ELEVEN COUNTRIES, BUT I AM AWARE THAT A NUMBER OF THEM, SUCH AS IRAN, HAVE EXTENSIVE DEVELOPMENT PROGRAMS WHICH WILL NEED A CONTINUED HIGH LEVEL OF FINANCING. IT IS THEREFORE CLEAR THAT THE COMBINATION OF THE HIGH LEVEL OF OIL PURCHASES DURING THE LAST QUARTER OF 1976 IN ANTICIPATION OF THE PRICE RISE, AND REDUCED LIFTINGS IN THE FIRST QUARTER OF 1977 WILL PUT A CERTAIN SQUEEZE ON SOME OF THE OPEC ELEVEN PRODUCERS.

5. OPEC THREAT TO WORLD ECONOMY. SIMPLE ANALYSIS SHOWS THAT THE TREND IN OPEC, AS DEMONSTRATED BY THE ACTIONS OF THE OPEC ELEVEN, IS ONE WHICH POINTS TOWARD CONTINUED IRRESPONSIBLE BEHAVIOR ON THE PART OF THE OPEC MAJORITY IN RESPECT TO OIL PRICING. CONTINUATION OF SUCH ARBITRARY PRICE INCREASES AS HAVE BEEN LEVIED BY THE CARTEL CAN ONLY  
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LEAD TO EVENTUAL SERIOUS GLOBAL ECONOMIC CONSEQUENCES OR EVEN CONFLICT. REPEATED DISTORTION OF THE WORLD'S ECONOMIC STRUCTURE AS THE RESULT OF CONTINUING PRICE INCREASE JOLTS WILL HAVE FAR-REACHING REPERCUSSIONS OF A POLITICAL AS WELL AS ECONOMIC NATURE. EFFORTS TO IMPROVE THE LOT OF THE DEVELOPING COUNTRIES IN THE FRAMEWORK OF THE NORTH-SOUTH DIALOGUE WILL PROVE FRUITLESS IF DELIBERATIONS ARE CONTINUALLY UPSET BY THE INTRODUCTION OF A NEW SET OF ECONOMIC EQUATIONS AND POLITICAL PROBLEMS--BOTH IN THE DEVELOPED AND DEVELOPING COUNTRIES--BROUGHT ON BY A SENSELESS SUCCESSION OF OPEC PRICE INCREASES. MOREOVER, THE DISARRAY IN THE INDUSTRIALIZED WORLD WILL AFFORD AN UNSURPASSED OPPORTUNITY FOR THE SOVIET UNION TO TILT THE GLOBAL BALANCE IN ITS FAVOR.

6. CONSIDERATION OF POLICY OPTIONS AND ACTIONS. ALTHOUGH ONE CANNOT SAY THAT THERE HAS BEEN AN IRREVOCABLE SPLIT IN OPEC, THE RESULTS OF THE DOHA MEETING HAVE CERTAINLY PRODUCED A CRACK IN ITS FACADE. WE SHOULD THEREFORE TAKE THIS OPPORTUNITY TO EXAMINE WHAT POLICY OPTIONS AND ACTIONS THIS DEVELOPMENT OFFERS THE US AND THE OTHER INDUSTRIALIZED COUNTRIES TO COUNTER THE POTENTIALLY UNFAVORABLE FUTURE IMPACT OF OPEC POLICIES AND ACTIONS.

7. SUPPORT FOR SAUDI ARABIA. IN THE FIRST INSTANCE, IT IS CLEARLY IN OUR INTEREST TO SUPPORT THE SAUDI/UAЕ EFFORT TO RESTRICT THE OIL PRICE INCREASE TO FIVE PERCENT. THIS SUPPORT MAY BE DEMONSTRATED IN A NUMBER OF WAYS. SOME HAVE BEEN SUGGESTED BY YAMANI, HIMSELF, I.E., MOVEMENT TOWARD A MIDDLE EAST PEACE SETTLEMENT AND PROGRESS IN THE NORTH-SOUTH DIALOGUE. I HAVE NOT VIEWED THESE AS CONDITIONS--INDEED SUCH PROGRESS WOULD SUPPORT OUR OWN POLICY OBJECTIVES IN

THESE FIELDS. OTHER WAYS TO SUPPORT SAUDI DETERMINATION IN  
THE MATTER COULD TAKE THE FORM OF FAVORABLE RESPONSE TO FURTHER  
REQUESTS FOR ARMS--PROVIDED THESE ARE REASONABLE AND DO NOT  
DISTURB THE MILITARY BALANCE IN THE MIDDLE EAST WHICH IS  
ALREADY CONSIDERABLY WEIGHTED IN ISRAEL'S FAVOR.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 INRE-00 NSCE-00 CIAE-00 /026 W

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 7036

INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

USINT BAGHDAD

USOECF PARIS

USMISSION EC BRUSSELS

AMCONSUL DHAHRAN

S E C R E T SECTION 2 OF 2 KUWAIT 0210

EXDIS

C O R R E C T E D C O P Y (PARA 10 FIRST SENTENCE CORRECTED  
AND INFO ADDEE (CARACAS) ADDED)

8. COMPLEXITIES OF SITUATION. ALTHOUGH I ASSUME CONSIDERATION  
IS ALREADY BEING GIVEN IN THE DEPT. AND ELSEWHERE TO POSSIBLE  
STEPS THE USG MIGHT TAKE IN THIS SITUATION, I AM NOT PRIVY TO

ANY INFORMATION IN THIS REGARD. NOR IS IT EASY TO DISCERN FROM THIS VANTAGE POINT WHAT ACTIONS, IF ANY, MAY EVEN BE POSSIBLE AND EFFECTIVE. I AM BROADLY AWARE OF THE COMPLEXITIES OF THE OIL DISTRIBUTION AND MARKETING SYSTEM, AND OF THE SEVERE LIMITATIONS PLACED ON THE FLEXIBILITY OF OIL COMPANIES BY THEIR CONTRACTUAL PURCHASE COMMITMENTS AND

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REFINERY SUPPLY REQUIREMENTS AS WELL AS OF GOVERNMENTS BY DOMESTIC LEGISLATION AND POLITICO/ECONOMIC PRESSURES AND DEMANDS IN BOTH THE US AND, ESPECIALLY, IN WESTERN EUROPE. I AM ALSO FULLY COGNIZANT OF THE FACT THAT THE COMPLEXITIES OF THE SITUATION WILL TEND TO DILUTE THE EFFECTIVENESS OF ANY POSSIBLE ACTIONS WHICH MAY COME IN MIND.

9. POSSIBLE COURSES OF ACTION. NONETHELESS, WITH THESE CAVEATS IN MIND, CLEARLY I WOULD LIKE TO OUTLINE BELOW A FEW COURSES OF ACTION WHICH COULD MERIT CONSIDERATION:

A. USG MIGHT EXAMINE, IN THE CONTEXT OF THE INTERNATIONAL ENERGY AGENCY (IEA), WAYS IN WHICH NON-OPEC OIL PRODUCTION COULD BE RAPIDLY MAXIMIZED DURING THIS YEAR, WITH EMPHASIS ON WHAT MEASURES MIGHT HAVE SOME EFFECT IN THE INITIAL SIX MONTHS PRIOR TO THE NEXT OPEC MEETING SCHEDULED JULY 12. EMERGENCY MEASURES BY THE USG TO INCREASE OUR DOMESTIC PRODUCTION COULD ALSO BE CONSIDERED: NORTH SEA PRODUCTION, PARTICULARLY NORWAY'S, MIGHT BE EXPANDED, ETC.

B. TEMPORARY MEASURES TO RESTRICT BOTH PURCHASES AND CONSUMPTION OF OPEC ELEVEN OIL SHOULD BE UNDERTAKEN, E.G. STOCKS WHICH ARE NOW AT A HIGH LEVEL SHOULD NOT BE REPLENISHED AS EARLY AS USUAL, RESERVES MIGHT BE DRAWN DOWN, ETC. ABOVE ALL, RESTRAINT SHOULD BE EXERCIZED SO THAT THE BUYING SPREE WHICH PRECEDED THE PRESENT PRICE RISE DOES NOT OCCUR AGAIN BEFORE THE NEXT PRICE INCREASE SCHEDULED FOR JULY 1. THERE ARE ALREADY INDICATIONS OF PROSPECTS THAT THE ADDITIONAL FIVE PERCENT INCREASE RAISING THE TOTAL OIL PRICE BY FIFTEEN PERCENT MIGHT BE ABANDONED IN THE HOPE OF ATTRACTING A BY-THAT-TIME DISILLUSIONED SAUDI ARABIA BACK IN ORDER TO RESTORE OPEC UNITY.

C. IEA GOVERNMENTS SHOULD SEEK TO COORDINATE WITH THEIR OIL COMPANIES TO ENSURE THAT THE LATTER MAKE EVERY EFFORT TO LIMIT THEIR PURCHASES OF OPEC ELEVEN OIL TO THE GREATEST

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EXTENT POSSIBLE. REDUCED PURCHASING PRESSURE SHOULD BE BROUGHT ON THOSE COUNTRIES AMONG THE OPEC ELEVEN WHICH MIGHT BE MORE VULNERABLE, SUCH AS KUWAIT, WHICH IS ALREADY UNEASY ABOUT ITS BEING AT ODDS WITH SAUDI ARABIA OVER THIS ISSUE, AND WHOSE OIL IS ALREADY MORE DIFFICULT TO MARKET BECAUSE OF ITS HIGH SULFUR CONTENT AND ITS GRAVITY. INDONESIA, WHICH HAS INCREASED THE PRICE OF ITS KEY MINAS CRUDE BY ONLY 5.9 PERCENT, MIGHT BE AMENABLE TO FRIENDLY PRESSURE TO BRING THE REST OF ITS CRUDES DOWN TO THE FIVE PERCENT LEVEL, IF LIFTINGS OF THOSE WERE TO BE REDUCED. CONVERSELY, THE OIL COMPANIES MIGHT TRY TO INCREASE THEIR PURCHASES FROM IRAQ, WHICH IN THE PAST HAS DEMONSTRATED ITS WILLINGNESS TO IGNORE OPEC PRICE STRICTURES BY GRANTING FAVORABLE DISCOUNTS IN ORDER TO INCREASE ITS SALES VOLUME. IN ADDITION, ASSURANCES SHOULD BE OBTAINED THAT SAUDI ARABIA AND UAE WILL GIVE SYMPATHETIC CONSIDERATION TO REQUESTS FOR CRUDE FROM THOSE OIL COMPANIES WHICH ARE NOT REGULAR CUSTOMERS.

D. IN THE DIPLOMATIC FIELD, USG AND ITS ALLIES SHOULD BE WILLING TO UNDERTAKE A MUCH MORE VIGOROUS DIPLOMATIC CAMPAIGN OF "JAWBONING" MEMBERS OF THE OPEC ELEVEN. FOR EXAMPLE, WE SHOULD MAKE A MAXIMUM EFFORT TO COUNSEL RESTRAINT TO OUR ALLY, IRAN, WHICH BECAUSE OF ITS IMPORTANCE AS LARGE OIL PRODUCER, HAS PROBABLY BEEN THE MOST IRRESPONSIBLE OF ALL THE OPEC MEMBERS IN DEMANDING HIGHER AND HIGHER PRICE INCREASES OVER THE YEARS. (MY SAUDI AMBASSADORIAL COLLEAGUE HAS ALREADY WRYLY COMMENTED ON THE MINIMAL PRESSURE EXERTED BY THE USG ON IRAN IN THIS QUESTION.) WHILE I RECOGNIZE OUR DEPENDENCE ON IRANIAN PURCHASES OF US PRODUCTS AND SERVICES (INCLUDING THE MILITARY CATEGORY) AS WELL AS ON IRANIAN OIL IN CERTAIN INSTANCES, I BELIEVE THE TIME HAS COME FOR THE USG TO DEMONSTRATE ITS DISPLEASURE WITH IRANIAN ACTIONS IN OPEC IN A FIRMER AND SHARPER MANNER. IRRESPONSIBLE THREATS TO BLACKLIST AMERICAN OIL COMPANIES WHICH CLOOSE TO BUY OIL AT THE LOWER SAUDI PRICE SHOULD NOT BE MEEKLY  
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ACCEPTED.

10. EXTENT OF IMPACT. THE ACTIONS OUTLINED, IF FEASIBLE, SHOULD BE TAKEN WITH LEAST FANFARE POSSIBLE. I DO NOT SUGGEST THAT WE SEEK TO ENGAGE IN DIRECT ECONOMIC CONFRONTATION WITH THE OPEC ELEVEN. I DO BELIEVE, HOWEVER, THAT THE UNCERTAINTY AND CONFUSION PREVAILING AMONG THEM CAN BE UTILIZED TO SHAKE THE ARROGANCE AND SELF-CONFIDENT BROUGHT ON BY THE HEADINESS OF THEIR GREAT WEALTH TO A SUFFICIENT EXTENT TO ENABLE US TO PROFIT FROM THE RESPONSIBLE ATTITUDE DISPLAYED BY SAUDI ARABIA AND THE UAE. EVEN IF SUCH MEASURES AS PROPOSED ARE ONLY PARTIALLY EFFECTIVE, THE CUMULATION

OF THEIR IMPACT, IF IT COMES EARLY ENOUGH, COULD POSSIBLY  
BE ENOUGH TO PERSUADE THE OPEC ELEVEN TO SETTLE FOR A FIVE  
PERCENT INCREASE--OR AT LEAST NOT RAISE THE INCREASE TO  
15 PERCENT.

11. RECOMMENDATION. AFTER WEIGHING ALL THE COMPLICATIONS  
THAT ARE EASY TO FORESEE AS WELL AS THE DIFFICULTIES OF  
DISCRETLY ORGANIZING SUCH AN EFFORT, I STILL FEEL THAT THIS  
SITUATION PRESENTS AN OPPORTUNITY WHICH SHOULD NOT BE MISSED.  
INDEED, THE PRICE-CONSCIOUS OIL COMPANIES HAVE ALREADY SHOWN  
THE WAY BY THEIR INITIAL REACTIONS. THEY SHOULD BE SUPPORTED  
BY THEIR GOVERNMENTS. SO SHOULD SAUDI ARABIA AND THE UAE  
FOR THEIR POLITICALLY INDEPENDENT STAND. IF THE SAUDI/UAE  
EFFORT FAILS FOR WANT OF SUPPORT FROM THE NATIONS THEIR  
ACTION WOULD BENEFIT, I FEAR FOR THE FUTURE BEHAVIOR OF  
OPEC WHICH MIGHT INDEED LEAD TO A FUTURE ECONOMIC CONFLICT  
THAT COULD ONLY BE DAMAGING TO THE POSITION OF THE WEST IN  
THE MIDDLE EAST. I THEREFORE URGE THAT WASHINGTON STUDY  
CAREFULLY AND GIVE RAPID AND SERIOUS CONSIDERATION TO WHAT  
EARLY ACTIONS MIGHT BE TAKEN TO EXPLOIT THIS DISARRAY IN  
OPEC TO THE ADVANTAGE OF BOTH THE INDUSTRIALIZED AND  
DEVELOPING NATIONS AND IN THE INTEREST OF PROTECTING THE  
POLITICAL POSITION OF THE US AND THE WEST IN THE MIDDLE  
EAST.

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## Message Attributes

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